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(Original Signature of Member)

107<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

**H. R.** \_\_\_\_\_

\_\_\_\_\_  
IN THE HOUSE OF REPRESENTATIVES

Mr. ENGLISH introduced the following bill; which was referred to the  
Committee on \_\_\_\_\_

\_\_\_\_\_  
**A BILL**

To amend the Internal Revenue Code of 1986 to allow advanced applied technology equipment to be expensed and to reduce the depreciation recovery periods for certain other property.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION. 1. SHORT TITLE; ETC.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “High Productivity Investment Act of 2001”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-  
2 wise expressly provided, whenever in this Act an amend-  
3 ment or repeal is expressed in terms of an amendment  
4 to, or repeal of, a section or other provision, the reference  
5 shall be considered to be made to a section or other provi-  
6 sion of the Internal Revenue Code of 1986.

7 (c) SECRETARY.—References in this Act to the “Sec-  
8 retary” are to the Secretary of the Treasury or his dele-  
9 gate.

10 **SEC. 2. FINDINGS; NEW COST RECOVERY SYSTEM DE-**  
11 **SIGNED TO INCREASE PRODUCTIVITY AND**  
12 **WAGES.**

13 (a) FINDINGS.—The Congress finds that—

14 (1) capital spending on applied technology is  
15 enabling Americans to be more productive thereby  
16 raising their wages and causing the economy to  
17 grow;

18 (2) economic growth has eliminated the deficit  
19 and provided for long-term tax cuts, increases in  
20 spending and debt reduction;

21 (3) continuing high levels of investment in the  
22 most modern and efficient capital equipment will  
23 preserve and magnify these gains; and

1           (4) the result of sustained productivity growth  
2       will be a permanently higher standard of living for  
3       Americans.

4       (b) REDUCING THE COST OF CAPITAL.—The Act re-  
5       duces the after-tax cost of productive capital equipment  
6       by—

7           (1) allowing the full cost of the most advanced  
8       applied technology to be deducted in the year the  
9       property is placed in service; and

10          (2) allowing the full cost of other associated  
11       machinery and equipment to be recovered by deduc-  
12       tions spread over 3, 5, 7, 10, or 15 years.

13       (c) GUIDING PRINCIPLES.—The goal is to put the  
14       best tools in the hands of Americans, thereby—

15          (1) raising their wages by helping them to  
16       produce more goods and services faster, better and  
17       cheaper; and

18          (2) bringing about a long-term structural im-  
19       provement in the United States economy built  
20       around a permanently higher level of productivity  
21       and income.

1 **SEC. 3. ADOPTION OF THE HIGH PRODUCTIVITY INVEST-**  
2 **MENT DEDUCTION AND RAPID COST RECOV-**  
3 **ERY SYSTEM.**

4 (a) IN GENERAL.—Part VI of subchapter B of chap-  
5 ter 1 (relating to itemized deductions for individuals and  
6 corporations) is amended by inserting after section 168  
7 the following new sections:

8 **“SEC. 168A. RAPID COST RECOVERY SYSTEM.**

9 “(a) GENERAL RULE.—Except as otherwise provided  
10 in this section, the depreciation deduction provided by sec-  
11 tion 167(a) for any tangible property placed in service on  
12 or after January 1, 2002, shall be determined by using—

13 “(1) the applicable recovery method,

14 “(2) the applicable recovery period, and

15 “(3) the applicable convention.

16 “(b) APPLICABLE RECOVERY METHOD.—

17 “(1) GENERAL RULE FOR PLANT AND EQUIP-  
18 MENT.—Except as provided in paragraphs (2) and  
19 (3), the applicable recovery method is—

20 “(A) the 200 percent declining balance  
21 method,

22 “(B) switching to the straight line method  
23 for the 1st taxable year for which using the  
24 straight line method with respect to the ad-  
25 justed basis as of the beginning of such year  
26 will yield a larger allowance.

1           “(2) SPECIAL RULE FOR LONG-LIFED PER-  
2           SONAL PROPERTY.—Paragraph (1) shall be applied  
3           by substituting ‘150 percent’ for ‘200 percent’ in the  
4           case of—

5                   “(A) any 10-year property or 15-year  
6           property, or

7                   “(B) any property with respect to which  
8           the taxpayer is eligible to elect and elects under  
9           paragraph (5) to have the provisions of this  
10          paragraph apply.

11          “(3) PROPERTY TO WHICH THE STRAIGHT-LINE  
12          METHOD APPLIES.—The applicable depreciation  
13          method is the straight-line method in the case of the  
14          following property:

15                   “(A) Nonresidential real property.

16                   “(B) Residential rental property.

17                   “(C) Any railroad grading or tunnel bore.

18                   “(D) Property with respect to which the  
19          taxpayer elects under paragraph (5) to have the  
20          provisions of this paragraph apply.

21          “(4) SALVAGE VALUE.—Salvage value shall be  
22          treated as zero for purposes of determining allow-  
23          ances under this section.

24          “(5) ELECTIONS.—

1           “(A) STRAIGHT-LINE METHOD.—A tax-  
 2           payer may elect to use the straight-line method  
 3           in lieu of the method otherwise required under  
 4           this subsection for 1 or more classes of property  
 5           for any taxable year.

6           “(B) 150 Percent declining balance meth-  
 7           od.—A taxpayer may elect to use the method  
 8           described in paragraph (2) for any taxable year  
 9           for 1 or more classes of property for which the  
 10          method described in paragraph (1) otherwise  
 11          would apply.

12          “(C) APPLICATION OF ELECTION.—Any  
 13          election made under this paragraph shall apply  
 14          to all property in the class for which the elec-  
 15          tion is made and, once made, shall be irrev-  
 16          ocable.

17          “(c) APPLICABLE RECOVERY PERIOD.—The applica-  
 18          ble recovery period shall be determined in accordance with  
 19          the following table:

| “In the case of:                          | The applicable recovery<br>period is: |
|---|---------------------------------------|
| High productivity property .....          | 1 year                                |
| 3-year property .....                     | 3 years                               |
| 5-year property .....                     | 5 years                               |
| Electric generating assets .....          | 7 years                               |
| 10-year property .....                    | 10 years                              |
| 15-year property .....                    | 10 years                              |
| Residential rental property .....         | 27.5 years                            |
| Nonresidential real property .....        | 39 years                              |
| Any railroad grading or tunnel bore ..... | 50 years.                             |

20          “(d) APPLICABLE CONVENTION.—

1           “(1) IN GENERAL.—Except as otherwise pro-  
2       vided in this subsection, the applicable convention is  
3       the half-year convention.

4           “(2) REAL PROPERTY.—The applicable conven-  
5       tion is the mid-month convention in the case of—

6               “(A) residential rental property,

7               “(B) nonresidential real property, and

8               “(C) any railroad grading or tunnel bore.

9           “(3) SPECIAL RULE WHERE SUBSTANTIAL  
10       PROPERTY PLACED IN SERVICE DURING LAST 3  
11       MONTHS OF TAXABLE YEAR.—Except as provided in  
12       regulations, if during any taxable year—

13               “(A) the aggregate bases of property to  
14       which paragraph (1) applies (as determined  
15       without application of this subparagraph)  
16       placed in service during the last 3 months of  
17       the taxable year, exceed

18               “(B) 40 percent of the aggregate bases of  
19       property to which paragraph (1) applies (as de-  
20       termined without application of this subpara-  
21       graph) placed in service during such taxable  
22       year, the applicable convention for all property  
23       to which paragraph (1) would apply (as deter-  
24       mined without application of this subpara-

1 graph) placed in service during such taxable  
2 year shall be the mid-quarter convention.

3 “(4) DEFINITIONS.—

4 “(A) HALF-YEAR CONVENTION.—The half-  
5 year convention is a convention which treats all  
6 property placed in service during any taxable  
7 year (or disposed of during any taxable year) as  
8 placed in service (or disposed of) on the mid-  
9 point of such taxable year.

10 “(B) MID-MONTH CONVENTION.—The  
11 mid-month convention is a convention which  
12 treats all property placed in service during any  
13 month (or disposed of during any month) as  
14 placed in service (or disposed of) on the mid-  
15 point of such month.

16 “(C) MID-QUARTER CONVENTION.—The  
17 mid-quarter convention is a convention which  
18 treats all property placed in service during any  
19 quarter of a taxable year (or disposed of during  
20 any quarter of a taxable year) as placed in serv-  
21 ice (or disposed of) on the mid-point of such  
22 quarter.

23 “(e) CLASSIFICATION OF PROPERTY.—

24 “(1) IN GENERAL.—Except as otherwise pro-  
25 vided in this subsection, property that is not high

1 productivity property, electric generating assets, a  
 2 railroad grading or tunnel bore, residential rental  
 3 property, or nonresidential real property shall be  
 4 classified under the following table:

| <b>Property shall be<br/>treated as:</b> | <b>If such property has a modified<br/>class life (in years) of:</b> |
|--|--|
| 3-year property .....                    | 3  |
| 5-year property .....                    | 5  |
| 10-year property .....                   | 10   |
| 15-year property .....                   | 15.  |

5 “(2) HIGH PRODUCTIVITY PROPERTY.—

6 “(A) CLASSIFICATION OF PROPERTY.—For  
 7 purposes of applying this section to high pro-  
 8 ductivity property for which an election is not  
 9 made under section 168B(a) and for purposes  
 10 of other provisions of this title that require clas-  
 11 sification of property—

12 “(i) high productivity property which  
 13 has a modified class life of 3 years shall be  
 14 treated as 3-year property, and

15 “(ii) all other high productivity prop-  
 16 erty shall be treated as 5-year property.

17 “(B) DEFINITION.—The term ‘high pro-  
 18 ductivity property’ has the same meaning as the  
 19 term ‘high productivity property’ under section  
 20 168B.

21 “(3) REAL PROPERTY.—For purposes of this  
 22 section—

1 “(A) RESIDENTIAL RENTAL PROPERTY.—

2 “(i) IN GENERAL.—The term ‘residen-  
3 tial rental property’ means any building or  
4 structure if 80 percent or more of the  
5 gross rental income from such building or  
6 structure for the taxable year is rental in-  
7 come from dwelling units.

8 “(ii) DEFINITIONS.—For purposes of  
9 clause (i)—

10 “(I) the term ‘dwelling unit’  
11 means a house or apartment used to  
12 provide living accommodations in a  
13 building or structure, but does not in-  
14 clude a unit in a hotel, motel, or other  
15 establishment more than one-half of  
16 the units in which are used on a tran-  
17 sient basis, and

18 “(II) if any portion of the build-  
19 ing or structure is occupied by the  
20 taxpayer, the gross rental income  
21 from such building or structure shall  
22 include the rental value of the portion  
23 so occupied.

1                   “(B)   NONRESIDENTIAL   REAL   PROP-  
2                   ERTY.—The term ‘nonresidential real property’  
3                   means section 1250 property which is not—

4                   “(i) residential rental property, or

5                   “(ii) property with a modified class  
6                   life.

7                   “(4) RAILROAD GRADING OR TUNNEL BORE.—

8                   The term ‘railroad grading or tunnel bore’ means all  
9                   improvements resulting from excavations (including  
10                  tunneling), construction of embankments, clearings,  
11                  diversions of roads and streams, sodding of slopes,  
12                  and from similar work necessary to provide, con-  
13                  struct, reconstruct, alter, protect, improve, replace  
14                  or restore a roadbed or right-of-way for railroad  
15                  track.

16                  “(5) ELECTRIC GENERATING ASSETS.—The  
17                  term ‘electric generating assets’ means property  
18                  used in—

19                  “(A) nuclear power production,

20                  “(B) hydraulic power production,

21                  “(C) steam power production, or

22                  “(D) custom turbine production of elec-  
23                  tricity for sale to the public, other than assets  
24                  with a modified class of less than 7 years.

1       “(f) EXCLUDED PROPERTY.—This section shall not  
2 apply to—

3               “(1) CERTAIN METHODS OF DEPRECIATION.—

4       Any property if—

5               “(A) the taxpayer elects to exclude such  
6       property from the application of this section,  
7       and

8               “(B) for the 1st taxable year for which a  
9       depreciation deduction would be allowable with  
10      respect to such property in the hands of the  
11      taxpayer, the property is properly depreciated  
12      under the unit-of-production method or any  
13      method of depreciation not expressed in a term  
14      of years (other than the retirement-replace-  
15      ment-betterment method or similar method).

16              “(2) CERTAIN PUBLIC UTILITY PROPERTY.—

17      Any public utility property (within the meaning of  
18      section 168(i)(10)) if the taxpayer does not use a  
19      normalization method of accounting (as determined  
20      under section 168(i)(9)).

21              “(3) FILMS AND VIDEO TAPE.—Any motion pic-  
22      ture film or video tape.

23              “(4) SOUND RECORDINGS.—Any works which  
24      result from the fixation of a series of musical, spo-  
25      ken, or other sounds, regardless of the nature of the

1 material (such as discs, tapes, or other  
2 phonorecordings) in which such sounds are em-  
3 bodied.

4 “(5) CERTAIN PROPERTY PLACED IN SERVICE  
5 IN CHURNING TRANSACTIONS.—

6 “(A) IN GENERAL.—This section shall not  
7 apply to any churning property acquired by the  
8 taxpayer after December 31, 2001, if—

9 “(i) the property was owned or used  
10 at any time during 2001 by the taxpayer  
11 or a related person,

12 “(ii) the property was owned or used  
13 at any time during 2001, and, as part of  
14 the transaction, the user of the property  
15 does not change,

16 “(iii) the taxpayer leases such prop-  
17 erty to a person (or a person related to  
18 such person) who owned or used such  
19 property at any time during 2001, or

20 “(iv) the property is acquired in a  
21 transaction as part of which the user of  
22 such property does not change and the  
23 property was acquired from a person to  
24 which clause (ii) or clause (iii) applies.

1           “(B) CHURNING PROPERTY.—For pur-  
2           poses of this paragraph, the term ‘churning  
3           property’ means any property that was first  
4           placed in service before January 1, 2002, if the  
5           recovery life of such property in the hands of  
6           the transferor (determined as of the time the  
7           property was placed in service) is greater than  
8           the recovery life of such property in the hands  
9           of the transferee (determined as if this para-  
10          graph did not apply).

11          “(C) APPLICABLE COST RECOVERY  
12          RULES.—Section 168 shall apply to any prop-  
13          erty to which this section does not apply by rea-  
14          son of this paragraph.

15          “(D) SPECIAL RULES.—For purposes of  
16          this paragraph—

17               “(i) property shall not be treated as  
18               owned before it is placed in service, and

19               “(ii) whether the user of a property  
20               changes will be determined in accordance  
21               with regulations prescribed by the Sec-  
22               retary.

23          “(6) EXPENSED PROPERTY.—Property the ex-  
24          penses of which are not chargeable to capital ac-

1 count under another provision of this chapter, except  
2 to the extent provided in the applicable provision.

3 “(g) ALTERNATIVE DEPRECIATION SYSTEM.—

4 “(1) IN GENERAL.—In the case of—

5 “(A) any tangible property which during  
6 the taxable year is used predominantly outside  
7 the United States,

8 “(B) any tax-exempt use property (as de-  
9 fined in section 168(h) and modified by para-  
10 graph (3)),

11 “(C) any tax-exempt bond financed prop-  
12 erty (as defined in section 168(g)(5)),

13 “(D) any imported property covered by an  
14 Executive order under section 168(g)(6), and

15 “(E) any property to which the taxpayer  
16 makes an election to have this subsection apply  
17 in accordance with procedures described in sec-  
18 tion 168(g)(7),

19 which is placed in service after December 31, 2001,  
20 the depreciation deduction provided by section  
21 167(a) shall be determined under the alternative de-  
22 preciation system of section 168(g) as modified by  
23 paragraph (2).

24 “(2) MODIFICATIONS TO ALTERNATIVE DEPRE-  
25 CIATION SYSTEM.—For purposes of applying the al-

1       ternative depreciation system of section 168(g) to  
2       property described in paragraph (1)—

3               “(A) RECOVERY PERIOD FOR HIGH PRO-  
4       DUCTIVITY PROPERTY.—Subparagraph (C) of  
5       section 168(g)(3) shall apply by substituting  
6       ‘high productivity property (as defined in sec-  
7       tion 168B(b))’ for ‘qualified technological  
8       equipment’.

9               “(B) LEASE OF HIGH PRODUCTIVITY  
10       PROPERTY.—For purposes of applying the defi-  
11       nition of ‘tax-exempt use property’ in section  
12       168(h), the phrase ‘high productivity property  
13       (as defined in section 168B(b))’ shall be sub-  
14       stituted for ‘qualified technological equipment’  
15       in paragraph (3) of section 168(h).

16               “(C) ELECTRIC GENERATING ASSETS.—In  
17       the case of electric generating assets the recov-  
18       ery period used for purposes of paragraph (2)  
19       of section 168(g) shall be 10 years.

20       “(h) DEFINITIONS.—

21               “(1) MODIFIED CLASS LIFE.—

22               “(A) IN GENERAL.—The term ‘modified  
23       class life’ means the modified class life of an  
24       item of property as set forth in a table prepared

1 by the Secretary in accordance with section 7 of  
2 the High Productivity Investment Act of 2001.

3 “(B) BEFORE PREPARATION OF TABLE.—

4 In the case of a taxpayer which is required to  
5 file a return before the table described in sub-  
6 clause (A) is published, the taxpayer shall de-  
7 termine the modified class life of property in ac-  
8 cordance with the principles of section 7 of the  
9 High Productivity Investment Act of 2001.

10 “(2) SECTION 1245 AND 1250 PROPERTY.—The  
11 terms ‘section 1245 property’ and ‘section 1250  
12 property’ have the meanings given such terms by  
13 sections 1245(a)(3) and 1250(c), respectively.

14 “(i) SPECIAL RULES.—

15 “(1) GENERAL ASSET ACCOUNTS.—Under regu-  
16 lations, a taxpayer may maintain 1 or more general  
17 asset accounts for any property to which this section  
18 applies. Except as provided in regulations, all pro-  
19 ceeds realized on any disposition of property in a  
20 general asset account shall be included in income as  
21 ordinary income.

22 “(2) CHANGES IN USE.—The Secretary shall,  
23 by regulations, provide for the method of deter-  
24 mining the deduction allowable under section 167(a)  
25 with respect to any tangible property for any taxable

1 year (and the succeeding taxable years) during  
2 which such property changes status under this sec-  
3 tion but continues to be held by the same person.

4 “(3) TREATMENTS OF ADDITIONS OR IMPROVE-  
5 MENTS TO PROPERTY.—In the case of any addition  
6 to (or improvement of) any property—

7 “(A) any deduction under subsection (a)  
8 for such addition or improvement shall be com-  
9 puted in the same manner as the deduction for  
10 such property would be computed if such prop-  
11 erty had been placed in service at the same  
12 time as such addition or improvement, and

13 “(B) the applicable recovery period for  
14 such addition or improvement shall begin on the  
15 later of—

16 “(i) the date on which such addition  
17 (or improvement) is placed in service, or

18 “(ii) the date on which the property  
19 with respect to which such addition (or im-  
20 provement) was made is placed in service.

21 “(4) TREATMENT OF CERTAIN TRANS-  
22 FEREES.—

23 “(A) IN GENERAL.—In the case of any  
24 property transferred in a transaction described  
25 in subparagraph (B), the transferee shall be

1           treated as the transferor for purposes of com-  
2           puting the depreciation deduction determined  
3           under this section or section 168, as the case  
4           may be, with respect to so much of the basis in  
5           the hands of the transferee as does not exceed  
6           the adjusted basis in the hands of the trans-  
7           feror. In any case where this section 168 as in  
8           effect before the amendments made by section  
9           201 of the Tax Reform Act of 1986 applied to  
10          the property in the hands of the transferor, the  
11          reference in the preceding sentence to section  
12          168 shall be treated as a reference to such sec-  
13          tion as so in effect.

14               “(B)   TRANSACTIONS   COVERED.—The  
15          transactions described in this subparagraph  
16          are—

17                       “(i) any transaction described in sec-  
18                       tion 332, 351, 361, 721, or 731, and

19                       “(ii) any transaction between mem-  
20                       bers of the same affiliated group during  
21                       any taxable year for which a consolidated  
22                       return is made by such group.

23          Subparagraph (A) shall not apply in the case of  
24          a termination of a partnership under section  
25          708(b)(1)(B).

1                   “(C) PROPERTY REACQUIRED BY THE TAX-  
2                   PAYER.—Under regulations, property which is  
3                   disposed of and then reacquired by the taxpayer  
4                   shall be treated for purposes of computing the  
5                   deduction allowable under subsection (a) as if  
6                   such property had not been disposed of.

7                   “(5) TREATMENT OF LEASEHOLD IMPROVE-  
8                   MENTS.—

9                   “(A) IN GENERAL.—In the case of any  
10                  building erected (or improvements made) on  
11                  leased property, if such building or improve-  
12                  ment is property to which this section applies,  
13                  the depreciation deduction shall be determined  
14                  under the provisions of this section.

15                  “(B) TREATMENT OF LESSOR IMPROVE-  
16                  MENTS WHICH ARE ABANDONED AT TERMI-  
17                  NATION OF LEASE.—An improvement—

18                         “(i) which is made by the lessor of  
19                         leased property for the lessee of such prop-  
20                         erty, and

21                         “(ii) which is irrevocably disposed of  
22                         or abandoned by the lessor at the termi-  
23                         nation of the lease by such lessee, shall be  
24                         treated for purposes of determining gain or

1                   loss under this title as disposed of by the  
2                   lessor when so disposed of or abandoned.

3                   “(C) CROSS REFERENCE.—

**“For treatment of qualified long-term real prop-  
erty constructed or improved in connection with  
cash or rent reduction from lessor to lessee, see sec-  
tion 110(b).**

4                   “(6) PUBLIC UTILITY PROPERTY WHICH DOES  
5                   NOT MEET NORMALIZATION RULES.—In the case of  
6                   any public utility property to which this section does  
7                   not apply by reason of subsection (f)(2), the allow-  
8                   ance for depreciation under section 167(a) shall be  
9                   an amount computed using the method and period  
10                  referred to in section 168(i)(9)(A)(i).

11                  “(j) PROPERTY ON INDIAN RESERVATIONS.—

12                  “(1) IN GENERAL.—A taxpayer may elect to  
13                  apply the cost recovery rules of section 168 (includ-  
14                  ing subsection (j) thereof), in lieu of the rules of this  
15                  section, to property to which the rules of section  
16                  168(j) would apply but for this section and section  
17                  168(k).

18                  “(2) ELECTION.—Any election pursuant to  
19                  paragraph (1) shall apply to all ‘qualified Indian res-  
20                  ervation property’ (as defined in section 168(j))  
21                  placed in service by the taxpayer in the taxable year  
22                  to which the election relates.

1   **“SEC. 168B. HIGH PRODUCTIVITY INVESTMENT DEDUC-**  
2                   **TION.**

3           “(a) TREATMENT AS EXPENSES.—A taxpayer may  
4 elect to treat the cost of any high productivity property  
5 as an expense not chargeable to capital account. Any cost  
6 so treated shall be allowed as a deduction in the taxable  
7 year in which the high productivity property is placed in  
8 service.

9           “(b) DEFINITION OF HIGH PRODUCTIVITY PROP-  
10 ERTY.—

11           “(1) IN GENERAL.—Except as provided in para-  
12 graph (3), the term ‘high productivity property’  
13 means any—

14                   “(A) computer,

15                   “(B) computer related peripheral equip-  
16 ment,

17                   “(C) computer based machinery,

18                   “(D) electronic diagnostic equipment,

19                   “(E) electronic control equipment,

20                   “(F) other electronic, electromechanical,  
21 laser or computer based equipment,

22                   “(G) computer software,

23                   “(H) equipment used in the manufacture  
24 of semiconductors,

25                   “(I) high technology medical equipment,

1                   “(J) advanced technology communications  
2                   equipment,

3                   “(K) optical fiber and photonics equip-  
4                   ment,

5                   “(L) advanced environmental products,

6                   “(M) advanced life science products, or

7                   “(N) new high productivity assets.

8                   “(2) DEFINITIONS.—For purposes of this sub-  
9                   section:

10                   “(A) COMPUTER.—The term ‘computer’  
11                   means a programmable electronically activated  
12                   device which—

13                   “(i) is capable of accepting informa-  
14                   tion, applying prescribed processes to the  
15                   information, and supplying the results of  
16                   those processes, and

17                   “(ii) consists of a central processing  
18                   unit containing extensive storage, logic,  
19                   arithmetic and control capabilities.

20                   “(B) COMPUTER RELATED PERIPHERAL  
21                   EQUIPMENT.—The term ‘computer related pe-  
22                   ripheral equipment’ means any auxiliary ma-  
23                   chine or other equipment (whether on-line or  
24                   off-line) which is designed to be placed under  
25                   the control of the central processing unit of a

1 computer (as determined without regard to  
2 whether such machine or equipment is an inte-  
3 gral part of other property which is not a com-  
4 puter).

5 “(C) COMPUTER BASED MACHINERY.—The  
6 term ‘computer based machinery’ means any  
7 machine which—

8 “(i) cuts, forms, shapes, drills, bores,  
9 mixes, paints, seals, welds, or otherwise  
10 transforms material, or

11 “(ii) handles, conveys, assembles, or  
12 packages materials or products,

13 by responding to electronically stored informa-  
14 tion and programmed commands.

15 “(D) ELECTRONIC DIAGNOSTIC EQUIP-  
16 MENT.—The term ‘electronic diagnostic equip-  
17 ment’ means equipment that uses electronic  
18 components to sense or monitor location, size,  
19 volume, surface characteristics, pressure, tem-  
20 perature, speed, chemical composition, or other  
21 similar characteristics.

22 “(E) ELECTRONIC CONTROL EQUIP-  
23 MENT.—The term ‘electronic control equipment’  
24 means equipment that electronically controls

1 pressure, temperature, size, volume, composi-  
2 tion purity or other similar characteristics.

3 “(F) HIGH TECHNOLOGY MEDICAL EQUIP-  
4 MENT.—The term ‘high technology medical  
5 equipment’ means any electronic,  
6 electromechanical, or computer-based high tech-  
7 nology equipment used in the screening, moni-  
8 toring, observation, diagnosis, or treatment of  
9 patients in a laboratory, medical, or hospital en-  
10 vironment.

11 “(G) ADVANCED TECHNOLOGY COMMU-  
12 NICATIONS EQUIPMENT.—The term ‘advanced  
13 technology communications equipment’ means  
14 equipment used in the transmission or reception  
15 of voice, data, video, paging, messaging, or  
16 other communications services that are deliv-  
17 ered using packet technology. A packet is a unit  
18 of data, or sequence of binary digits, that is  
19 routed between an origin and a destination on  
20 a packet-switched network.

21 “(H) OPTICAL FIBER AND PHOTONICS  
22 EQUIPMENT.—The term ‘optical fiber and  
23 photonics equipment’ means optical fiber and  
24 the equipment and materials used to generate,

1           manipulate and direct light particles over such  
2           fiber.

3           “(I) ADVANCED ENVIRONMENTAL PROD-  
4           UCTS.—The term ‘advanced environmental  
5           product’ means any high cell density ceramic or  
6           other device used for the control of nitrogen  
7           oxide and particulate emissions.

8           “(J) ADVANCED LIFE SCIENCES PROD-  
9           UCTS.—The term ‘advanced life sciences prod-  
10          uct’ means any polymer, ceramic or high-purity  
11          glass product used in biological research.

12          “(K) NEW HIGH PRODUCTIVITY ASSETS.—

13                 “(i) IN GENERAL.—The term ‘new  
14                 high productivity assets’ means any asset  
15                 utilizing 1 or more technological or sci-  
16                 entific processes which were not in com-  
17                 mon commercial use before January 1,  
18                 2001.

19                 “(ii) DETERMINATIONS.—The Sec-  
20                 retary shall establish procedures pursuant  
21                 to which taxpayers can seek a public ruling  
22                 that a particular class of assets qualifies as  
23                 new high productivity assets. The proce-  
24                 dures shall require the Secretary to provide  
25                 a determination within 90 days of receipt

1                   of a properly completed request for a pub-  
2                   lic ruling.

3                   “(3) EXCLUDED PROPERTY.—The term ‘high  
4                   productivity property’ shall not include—

5                   “(A) an entire car, locomotive, aircraft,  
6                   ship or other vehicle solely because the vehicle  
7                   is controlled in whole or part by a computer or  
8                   other electronic equipment,

9                   “(B) any equipment of a kind used pri-  
10                  marily for entertainment or amusement of the  
11                  user, and

12                  “(C) typewriters, calculators, copiers, du-  
13                  plication equipment, and other similar equip-  
14                  ment.

15                  “(c) ELECTION.— An election under this section for  
16                  any taxable year shall—

17                  “(1) be made on an asset by asset basis, and

18                  “(2) be made on the taxpayer’s return of the  
19                  tax imposed by this chapter for the taxable year.

20                  “(d) SPECIAL RULES.—

21                  “(1) COST.—For purposes of this section, the  
22                  cost of property does not include so much of the  
23                  basis of such property as is determined by reference  
24                  to the basis of other property held at any time by  
25                  the person acquiring such property.

1           “(2) ANTICHURNING RULES.—

2                   “(A) IN GENERAL.—The antichurning  
3 rules of section 168A(f)(5) shall apply to this  
4 section.

5                   “(B) SPECIAL RULE.—For purposes of  
6 apply the antichurning rules of section  
7 168A(f)(5) to this section, assets to which this  
8 section may apply but for such rule shall be  
9 treated as having a recovery period for of 1  
10 year.

11           “(3) RECAPTURE IN CERTAIN CASES.—The  
12 Secretary shall, by regulations, provide for the re-  
13 capturing the benefit under any deduction allowable  
14 under subsection (a) with respect to any property  
15 which is not used predominantly in a trade or busi-  
16 ness at any time.

17           “(4) ALTERNATIVE DEPRECIATION SYSTEM AP-  
18 PLIES.—The election under subsection (a) may not  
19 be made with respect to property which at any time  
20 during the taxable year in which such property is  
21 placed in service is—

22                   “(A) described in paragraph (1) of section  
23 168A(g) or

24                   “(B) ‘listed property’ ‘not predominantly  
25 used in a qualified business use’ as such terms

1           apply for purposes of paragraph (1) of  
2           280F(b).”.

3           (b) CONFORMING AMENDMENT.—The table of sec-  
4       tions for part VI of subchapter B of chapter 1 is amended  
5       by adding after section 168 the following new items:

          “Sec. 168A. Rapid cost recovery system.

          “Sec. 168B. High productivity investment deduction.”

6       **SEC. 4. REPEAL OF MACRS.**

7           (a) IN GENERAL.—Section 168 is amended by insert-  
8       ing at the end thereof the following new subsection:

9           “(k) REPEAL OF MACRS.—This section shall apply  
10      to property placed in service after December 31, 2001,  
11      only to the extent provided in section 168A.”

12      **SEC. 5. MODIFICATIONS TO ALTERNATIVE MINIMUM TAX.**

13           (a) REPEAL OF DEPRECIATION PREFERENCE.—Sub-  
14      paragraph (A) of section 56(a)(1) is amended to read as  
15      follows:

16                   “(A) PRE-2002 PROPERTY.—

17                           “(i) CERTAIN PROPERTY PLACED IN  
18                   SERVICE BEFORE 1999.—Except as pro-  
19                   vided in clause (iv), the depreciation deduc-  
20                   tion allowable under section 167 with re-  
21                   spect to any tangible property placed in  
22                   service after December 31, 1986, and be-  
23                   fore January 1, 1999, shall be determined  
24                   under the alternative system of section

1 168(g) but using the method of deprecia-  
2 tion described in clause (iii).

3 “(ii) CERTAIN PROPERTY PLACED IN  
4 SERVICE BEFORE 2002.—Except as pro-  
5 vided in clause (iv), the method of depre-  
6 ciation described in clause (iii) shall be  
7 used to determine the depreciation deduc-  
8 tion allowable under section 167 with re-  
9 spect to—

10 “(I) any tangible property placed  
11 in service after December 31, 1998,  
12 and before January 1, 2002, and

13 “(II) any property to which sec-  
14 tion 168A(f)(5) applies.

15 “(iii) 150-percent declining balance  
16 method for certain property.—Except as  
17 provided in clause (iv), the method of de-  
18 preciation used to determine depreciation  
19 deductions under clauses (i) and (ii) shall  
20 be—

21 “(I) the 150 percent declining  
22 balance method,

23 “(II) switching to the straight  
24 line method for the 1st taxable year  
25 for which using the straight line

1 method with respect to the adjusted  
2 basis as of the beginning of the year  
3 will yield a higher allowance.

4 “(iv) PROPERTY DEPRECIATED ON  
5 THE STRAIGHT LINE BASIS.—The method  
6 of depreciation used to determine the de-  
7 preciation deductions under clauses (i) and  
8 (ii) shall be the straight line method in the  
9 case of—

10 “(I) section 1250 property (as  
11 defined in section 1250(c)), and

12 “(II) other property if the depre-  
13 ciation deduction determined under  
14 section 168 with respect to such other  
15 property for purposes of the regular  
16 tax is determined using the straight  
17 line method.”

18 (b) REPEAL OF DEPRECIATION DEDUCTION FOR AD-  
19 JUSTED CURRENT EARNINGS.—Clause (i) of section  
20 56(g)(4)(A) (relating to the depreciation deduction for  
21 purposes of computing adjusted current earnings) is  
22 amended to read as follows:

23 “(i) PROPERTY PLACED IN SERVICE  
24 AFTER 1989.—

1                   “(I) PROPERTY PLACED IN SERV-  
2                   ICE BEFORE 1994.—The depreciation  
3                   deduction with respect to any property  
4                   placed in service before January 1,  
5                   1994, in a taxable year beginning  
6                   after 1989 shall be determined under  
7                   the alternative system of section  
8                   168(g).

9                   “(II) PROPERTY PLACED IN  
10                  SERVICE BEFORE 2002.—The depre-  
11                  ciation deduction with respect to any  
12                  property placed in service after De-  
13                  cember 31, 1993, and before January  
14                  1, 2002 shall be determined under the  
15                  rules of subparagraph (A) of sub-  
16                  section (a)(1).

17                  “(III) PROPERTY PLACED IN  
18                  SERVICE AFTER 2001.—The deprecia-  
19                  tion deduction with respect to any  
20                  property placed in service after De-  
21                  cember 31, 2001, shall be the depre-  
22                  ciation deduction determined with re-  
23                  spect to such property for purposes of  
24                  the regular tax.

1 “(IV) ANTICHURNING RULE.—  
2 For purposes of this clause, property  
3 which section 168A(f)(5) applies shall  
4 be treated as described in subclause  
5 (III).”

6 (c) TECHNICAL AMENDMENTS.— Section 56(a)(5)  
7 (relating to minimum tax depreciation for pollution control  
8 equipment) is amended by striking “section 168 using the  
9 straight line method.” and inserting “section 168A(a).”.

10 **SEC. 6. CONFORMING AMENDMENTS.**

11 (a) REFERENCES TO DEPRECIATION ALLOWABLE  
12 UNDER SECTION 168.—The Code is amended by striking  
13 “168” and inserting “168 or 168A” in the following  
14 places:

- 15 (1) Section 47(c)(2)(A)(i).
- 16 (2) Section 280F(a)(1)(B)(iv).
- 17 (3) Section 280F(a)(2)(B).
- 18 (4) Section 280F(d)(1).
- 19 (5) Section 312(k)(3)(A).
- 20 (6) Section 381(c)(6).
- 21 (7) Section 936(i)(4)(B).
- 22 (8) Section 1250(b)(5)(A).
- 23 (9) Section 1250(b)(5)(B).
- 24 (10) Section 1397C(a)(1).

25 (b) AMENDMENTS TO REFLECT EXPENSING.—

1           (1) The Code is amended by striking “179”  
2           and inserting “168B or 179” in the following places:

3                   (A) Section 179A(e)(5).

4                   (B) Section 280F(d)(1), including the title  
5           of such paragraph.

6                   (C) Section 1397C(a)(1).

7           (2) Paragraph (1) of section 263 is amended by  
8           striking “;or” at the end of subparagraph (G) and  
9           inserting a comma, by striking the period at the end  
10          of subparagraph (H) and inserting “, or”, and by in-  
11          serting at the end of the paragraph the following  
12          new subparagraph:

13                   “(I) expenditures for which a deduction is  
14          allowed under section 168B.”

15          (3) Section 312(k) is amended by striking “179  
16          or 179A” each place that it appears (including the  
17          subsection title) and inserting “168B, 179 or  
18          179A”.

19          (4) Section 1245(a)(2)(C) is amended by strik-  
20          ing “179” and inserting “168B, 179”.

21          (c) CHANGES TO OTHER REFERENCES TO SECTION  
22          168.—

23                  (1) Section 47(c)(2)(B)(i) (relating to the use  
24          of the straight line method for rehabilitation prop-

1       erty) is amended by inserting “or section  
2       168A(b)(5)(A)” after “168” and before the period.

3           (2) Section 47(c)(2)(B)(vi) (relating to exclu-  
4       sions from qualified rehabilitation property) is  
5       amended by striking “168(c)” and inserting in lieu  
6       thereof “168A(c)”.

7           (3) Section 142(i)(2)(A) (relating to tax-exempt  
8       bond financing of high speed intercity rail facilities)  
9       is amended by striking “167 or 168,” and inserting  
10      in lieu thereof “167, 168, 168A or 168B,”.

11          (4) Section 167(b) (relating to cross references  
12      for depreciation provisions) is amended by inserting  
13      at the end thereof: “For determination of deprecia-  
14      tion deduction in case of property to which section  
15      168A applies, see section 168A.”.

16          (5) Section 179(d)(1) (relating to property eli-  
17      gible for expensing) is amended by striking “168”  
18      and inserting in lieu thereof “168A”.

19          (6) Section 280F(b)(1) (relating to the use of  
20      the alternate depreciation system for personal use  
21      property not predominantly used in a qualified busi-  
22      ness use) is amended by striking “168” and insert-  
23      ing in lieu thereof “168A”.

24          (7) Section 291(c)(1) (relating to the corporate  
25      preference item for pollution control facilities) is

1 amended by striking “168” and inserting in lieu  
2 thereof “168A”.

3 (8) Clauses (i), (ii), (iii) and (iv) of section  
4 936(i)(4)(B) (relating to the possessions tax credit)  
5 are amended by striking “168” each place that it  
6 appears and inserting in lieu thereof “168A”.

7 (9) Section 467(e)(3)(B) is amended to read as  
8 follows:

9 “(B) SPECIAL RULE FOR PROPERTY NOT  
10 DEPRECIABLE UNDER SECTION 168 OR 168A.—  
11 In the case of property to which section 168 or  
12 168A does not apply, subparagraph (A) shall be  
13 applied as if section 168A applies to such prop-  
14 erty.”

15 (d) OTHER CONFORMING AMENDMENTS.—

16 (1) Section 936(i)(4)(B)(i) is amended by in-  
17 serting “high productivity property,” before “3-year  
18 property”.

19 (2) Section 936(i)(4)(B) is amended by striking  
20 out clause (v) thereof.

21 **SEC. 7. MODIFIED CLASS LIFE.**

22 (a) TABLE OF MODIFIED CLASS LIVES.—

23 (1) IN GENERAL.—The Secretary shall pre-  
24 scribe a table showing classes of property and the  
25 modified class life of each class of property. The ini-

1        tial table prescribed by such Secretary shall be based  
2        on the schedule in subsection (b) with such changes  
3        in the description of classes of property as the Sec-  
4        retary deems appropriate, including the consolida-  
5        tion of similar classes with identical modified class  
6        lives.

7            (2) NEW TYPES OF PROPERTY.—If the Sec-  
8        retary identifies classes of property that are not de-  
9        scribed in the schedule in subsection (b), the Sec-  
10       retary shall modify the schedule described in para-  
11       graph (1) by adding a new modified asset class for  
12       such classes of property. If the Secretary determines  
13       that any existing class of property includes assets  
14       with distinctly different characteristics, the Sec-  
15       retary may divide such class into 2 or more modified  
16       asset classes. The modified class life for any class  
17       established pursuant to this paragraph shall be the  
18       same as the modified class life for other classes  
19       which include assets with characteristics similar to  
20       those of the assets in the new class.

21            (3) CHANGES IN LIVES OF PROPERTY.—

22            (A) DECREASE IN MODIFIED CLASS  
23        LIFE.—Upon petition from persons who place  
24        in service assets in a particular modified asset  
25        class, the Secretary shall examine whether the

1 modified class life for such class is too long (as  
2 determined by comparing the modified class life  
3 with the modified class life for modified asset  
4 classes for assets which have characteristics  
5 similar to those of the assets in the class being  
6 examined). If the Secretary finds that the modi-  
7 fied class life for the examined class is too long,  
8 he shall promptly prescribe a new modified  
9 class life for the class.

10 (B) INCREASE IN MODIFIED CLASS LIFE.—

11 If the Secretary determines that potentially  
12 abusive transactions are occurring because the  
13 modified class life of an asset class is shorter  
14 than it should be (as measured by the stand-  
15 ards set in subparagraph (A)), the Secretary  
16 may prescribe a new modified class life for such  
17 class after a period of notice and comment. In  
18 no other case shall the Secretary increase the  
19 modified class life of a class.

20 (b) TENTATIVE SCHEDULE.—

21 (1) IN GENERAL.—This subsection includes a  
22 schedule of classes of assets and the modified class  
23 life of each class of assets. The schedule shall form  
24 the basis for the table to be prescribed by the Sec-  
25 retary pursuant to subsection (a).

1           (2) DESCRIPTION OF ASSETS CLASSES.—For  
2       purposes of applying the schedule under this  
3       subsection—

4           (A) MACRS CLASS.—If an asset class is  
5       described in this subsection by reference to a  
6       MACRS asset class, such asset class is the  
7       asset class described in Internal Revenue Serv-  
8       ice Revenue Procedure 87-56, as modified or  
9       supplemented through the date of the enact-  
10      ment of this Act.

11          (B) ASSET DESCRIBED IN TWO CLASSES.—  
12      If an asset is described in two classes and one  
13      of the classes is under the heading “Assets  
14      Used in All Business Activities,” the asset shall  
15      be classified in the asset class under such head-  
16      ing. If an asset class is described in two asset  
17      classes and one class has a specific description  
18      and the other class has a reference to a  
19      MACRS asset class, the asset shall be classified  
20      in the asset class with the specific description.

21          (3) MODIFIED CLASS LIFE SCHEDULE.—The  
22      modified class life schedule is as follows:

1 (...)

1 (...)

1 (...)

1 (.....

1 (...)

1 **SEC. 8. TRANSITION RULES AND EFFECTIVE DATE.**

2 (a) **EFFECTIVE DATE.**—The amendments made by  
3 this Act shall be effective for property placed in service  
4 on or after January 1, 2002, with respect to taxable years  
5 beginning on or after or including such date.

6 (b) **SURVIVAL OF TRANSITION RULES.**—The rephras-  
7 ing or relabeling of any provision of the Internal Revenue  
8 Code of 1986 that occurs by reason of this Act shall not  
9 operate to abrogate or limit any transitional rule or excep-  
10 tion applicable to the provision that was rephrased.